

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-10 ADP-00 IO-13

CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10

PA-03 RSC-01 PRS-01 SS-15 USIA-15 AID-20 COME-00

FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01

OMB-01 SCEM-02 INT-08 FPC-01 AGR-20 RSR-01 /248 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2782

INFO AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY OTTAWA

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

AMEMBASSY TRIPOLI

USINT ALGIERS

C O N F I D E N T I A L LONDON 08400

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: AVAILABILITY OF PROPANE

REF: STATE 131388

BEGIN SUMMARY. INDUSTRY SOURCES BELIEVE (A) QUANTITIES
OF UNCOMMITTED PROPANE AVAILABLE FOR EXPORT OVER NEXT
TWELVE MONTHS THROUGHOUT WESTERN EUROPE ARE LIKELY TO BE
NEGGLIGIBLE OUTSIDE LPG EXPORT ORIENTED REFINERIES OF
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SICILY AND SARDINIA; (B) SELLING PRICE IS DIFFICULT TO

FORECAST SINCE "SPOT MARKET" IS SO THIN, BUT BALL PARK ESTIMATE IS AS HIGH AS \$90 PER METRIC TON BY NEXT WINTER; AND (C) GOVERNMENT EXPORT CONTROLS MORE LIKELY TO BE PLACED ON PETROLEUM PRODUCT SHIPMENTS ACROSS THE BARREL, NOT JUST ON PROPANE OR LPG, IN EVENT "NEAR CRISIS" PRICE INCREASES OR SHORTAGES OCCUR ON GASOLINE AND OTHER LIGHT PRODUCTS. US EXPORT CONTROLS ON SOYABEANS CITED AS SETTING UNFORTUNATE PRECEDENT IN THIS CONTEXT. END SUMMARY.

1. WEST EUROPEAN PRODUCTION OF LPG IS RUNNING AT ABOUT 10 MILLION METRIC TONS ANNUALLY, APPROXIMATELY 5-6 MILLION MT OF WHICH IS PROPANE. LONG TERM CONTRACTS BETWEEN INTEGRATED OIL COMPANIES AND LOCAL LPG CONSUMERS AS WELL AS INTRA-COMPANY TRANSFERS AMONG EUROPEAN AFFILIATES OF OIL COMPANIES ACCOUNT FOR ABOUT 90 PERCENT OF PRODUCTION. REMAINING 1 MILLION MT OF UNCOMMITTED SUPPLY ORDINARILY IS AVAILABLE IN GREATER AMOUNTS DURING SUMMER SEASON. AT PRESENT, HOWEVER, PROPANE "SPOT MARKET" IS EXTREMELY THIN AND REPORTEDLY ONE RECENT QUERY FROM US BUYER FOR 700,000 TONS COULD NOT BE SUPPLIED. "SPOT MARKET" FOR LPG IS IN FACT CONSTITUTED BY SPECIALIZED SHIPPING COMPANIES SUCH AS GAS OCEAN AND UNIGAS WHICH ACCUMULATE SCATTERED REFINERY SURPLUSES.

2. PRINCIPAL SUPPLIERS FOR LPG EXPORT MARKET ARE INDEPENDENT SICILIAN AND SARDINIAN REFINERS WHO REPORTEDLY PROCESS MAINLY LIBYAN AND ALGERIAN CRUDES. LARGER INTEGRATED COMPANY SUPPLIERS SUCH AS ESSO, SHELL OR BP ARE UNLIKELY TO BE WILLING OR ABLE TO DIVERT SIGNIFICANT QUANTITIES TO US AWAY FROM TRADITIONAL MARKETS. ONE INDUSTRY SOURCE BELIEVES PROSPECTS FOR LPG AVAILABILITY OVER NEXT YEAR IS EXCEEDINGLY POOR GIVEN INCREASING EUROPEAN DEMAND AND HEAVIER CRUDES WHICH REFINERIES WILL BE RUNNING.

3. CURRENT "SPOT MARKET" PRICE OF PROPANE AT NORTHWEST EUROPEAN PORT IS ABOUT \$35 PER METRIC TON (MED PORT MAY DIFFER SLIGHTLY). DESPITE OR PERHAPS BECAUSE OF NEGLIGIBLE AMOUNT AVAILABLE FOR EXPORT, ONE INDUSTRY CONFIDENTIAL

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SOURCE SPECULATES THAT PRICE MAY GO AS HIGH AS POUNDS 90 PER METRIC TON NEXT WINTER IN RESPONSE TO PHYSICAL AND PSYCHOLOGICAL PRESSURE OF US DEMAND. (PRICE RANGE LAST WINTER WAS POUNDS 45-60 MT). ANOTHER INDUSTRY SOURCE REFUSED TO GIVE EVEN BALL PARK ESTIMATE ON PRICE.

4. SO FAR AS GOVERNMENT EXPORT RESTRICTIONS OR CONTROLS ARE CONCERNED, MOST SOURCES DO NOT BELIEVE LPG OR

PROPANE MARKET WILL BE DETERMINING FACTOR. PRESSURE OF US DEMAND OVER ENTIRE RANGE OF WHITE PRODUCTS, INCLUDING LIGHT FUEL OIL IN RECENT MONTHS, IS MORE LIKELY TO TRIGGER INDIVIDUAL COUNTRY OR CONCERTED EC EXPORT CONTROL PROCEDURE. US EMBARGO ON SOYABEANS CITED AS UNFORTUNATE PRECEDENT IN THIS CONTEXT.

5. EMBASSY HAS NOT DISCUSSED SUBJECT WITH HMG, SHELL OR BP SOURCES BECAUSE OF SPECULATION SUCH INQUIRIES MIGHT START.
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